Introduction to Economics I
Lecture 8

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Short run versus Long Run

short run

1. Capital is a fixed factor of production.
2. No entry/exit.

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Short run versus Long Run

long run

1. no fixed factors of production.
2. Entry/exit is possible.

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Fixed Cost

A fixed cost is a cost that does not change with an increase or decrease In the amount of goods or services produced or sold.

Fixed cost is a part of total cost:

TC=Fixed cost + Variable Cost

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Examples of Fixed Costs

Some examples of fixed costs include rental lease payments, salaries, insurance, property taxes, interest expenses, depreciation, and potentially some utilities.

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Variable Costs

Variable costs are corporate expenses that vary in direct proportion to the quantity of output.

Unlike fixed costs, which remain constant regardless of output, variable costs are a direct function of production volume, rising whenever production expands and falling whenever it contracts.

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Variable Costs

Variable cost is also a part of total cost:

TC=Fixed cost + Variable Cost

Examples of common variable costs include raw materials, packaging, and labor directly involved in a company's manufacturing process.

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average variable cost

Total variable cost divided by the number of units of output.

average fixed cost

Total fixed cost divided by the number of units of output.

average total cost

Total cost divided by the number of units of output.